

This is an English translation of the original Japanese-language Business Results of DESCENTE LTD. (the Company) for the 1st quarter of fiscal year ended March 31, 2020 and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.



Summary of Financial Statements for the 1st Quarter Ended June 30, 2019
[Japan GAAP] (Consolidated)

August 1, 2019

Name of the Company: DESCENTE LTD.

Listed Exchange: TSE

Code No.: 8114

URL: <http://www.descente.co.jp>

Representative: Shuichi Koseki, President and Representative Director

Person responsible for inquiry: Akira Tsuchihashi, Director and, Managing Executive Officer, CFO

(TEL)+81-3-5979-6111

Date of Submission of Quarterly Report: August 8, 2019

Date of Dividend Payments: -

Supplementary Financial Material: Yes

Financial Results Briefing: None

(Note: Amounts less than one million yen are truncated)

1. Consolidated Results for 1Q ended June 30, 2019 (April 1, 2019 - June 30, 2019)

(1) Consolidated operating results (cumulative)

(%, YoY)

	Net sales		Operating income		Ordinary income		Quarterly profit attributable to owners of parent	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
1Q ended June 30, 2019	29,479	(4.2)	451	(59.6)	577	(51.7)	354	(63.6)
1Q ended June 30, 2018	30,776	2.0	1,116	13.6	1,196	11.9	975	27.6

(Note) Comprehensive income 1Q ended June 30, 2019: (¥306 million) (- %), 1Q ended June 30, 2018: (¥1,306 million) (- %)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
1Q ended June 30, 2019	4.71	—
1Q ended June 30, 2018	12.94	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Yen in millions	Yen in millions	%
1Q ended June 30, 2019	113,817	76,178	66.9
FY ended March 31, 2019	115,756	78,446	67.8

(Reference) Equity 1Q ended June 30, 2019: ¥76,178million, FY ended March 31, 2019: ¥78,446million

2. Dividends

	Annual cash dividend per share				
	End of the 1st quarter	End of the 2nd quarter	End of the 3rd quarter	End of the year	Total
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2019	—	0.00	—	26.00	26.00
FY ended March 31, 2020	—	—	—	—	—
FY ended March 31, 2020 (Forecast)	—	0.00	—	22.00	22.00

(Note) Revisions to dividend forecasts published most recently: None

3. Consolidated earnings forecast for the fiscal year ending March 31, 2020 (April 1, 2019 - March 31, 2020)

(%, YoY)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		EPS
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
First half of fiscal year	64,400	(3.5)	1,500	(47.8)	1,600	(50.3)	1,100	(52.0)	14.59
Full-year	144,000	1.1	8,000	0.8	8,200	(3.1)	5,300	34.4	70.29

(Note) Revisions to earnings forecasts published most recently: None

*Notes

(1) Changes in significant subsidiaries during the quarterly fiscal year: None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

(Note) See Appendix page 9 "(3) Notes to Quarterly Consolidated Financial Statements" for details.

(3) Changes in accounting policies, accounting estimates, and restatements

1. Changes in accounting policies associated with revision of accounting standards: Yes

2. Changes in accounting policy other than 1: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding at fiscal end (including treasury stock):

1Q ended June 30, 2019	76,924,176	FY ended March 31, 2019	76,924,176
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2. Number of treasury stock at fiscal end:

1Q ended June 30, 2019	1,516,157	FY ended March 31, 2019	1,516,109
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3. Average number of shares during the term (quarterly cumulative):

1Q ended June 30, 2019	75,408,031	1Q ended March 31, 2018	75,372,796
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Note: Summary of Quarterly financial statement is not subject to auditing procedures by independent auditors or auditing firms.

Note: Explanation of appropriate use of business performance forecasts and other special items

(Notes on future descriptions)

The earnings forecasts in this document are based on the current information and certain assumptions that are considered reasonable, and actual results may vary greatly depending on various factors. Prerequisites for earnings forecast or notes for using it, please refer to "(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts" on page 4.

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1. Qualitative Information on Consolidated Performance

(1) Explanation of Operating Results

Consolidated net sales for cumulative 1Q was ¥29,479 million (-4.2% YOY), operating income was ¥451 million (-59.6% YOY), ordinary income was ¥577 million (-51.7% YOY), and quarterly profit attributable to owners of parent was ¥354 million (-63.6% YOY).

Operating Results Overviews

Segment	Net Sales (Yen in millions) (year on year)	Segment Income or Loss (Yen in millions) (year on year)
Japan	10,782 (-7.3%)	(1,486) (Previous year: -792 million)
Asia	18,138 (-2.8%)	2,186 (+2.8%)
Europe/Americas	558 (+17.3%)	(227) (Previous year: -219 million)
Adjustments	—	(21) (Previous year: 1 million)
Total	29,479 (-4.2%)	451 (-59.6%)

(Japan)

In the athletic category, although "DESCENTE" remained steady, "le coq sportif" and "umbro" struggled. In the golf category, "DESCENTE" performed well but "Munsingwear" struggled. As a whole of Japan, operating loss increased from the previous year due to a decrease in gross profit resulting from lower sales.

(Asia)

In Korea, "umbro" performed well and "DESCENTE" struggled. In Hong Kong and Singapore, "le coq sportif" performed well. As a whole of Asia, sales fell below the previous year though profits were higher than the previous year due to the improvement of selling price ratio in Korea.

(Europe/Americas)

Sales in Europe/Americas as a whole rose from the previous year due to strong sales in "inov-8". However, operating loss increased slightly from the previous year resulting from an increase of SGA of DESCENTE ATHLETIC AMERICAS, INC., which established in March 2018, exceeded the increase in gross profit.

Net Sales by Item

(Sales by Item)

Item	Amount (Yen in millions)	Composition Ratio (%)	Year on year (%)
Athletic wear and related products	21,247	72.1	-4.6
Golf wear and related products	6,516	22.1	-7.5
Outdoor wear and related products	1,715	5.8	+17.1
Total	29,479	100.0	-4.2

(Note) The above amounts do not include consumption tax.

(Athletic Wear and Related Products)

In the athletic category, sales of "DESCENTE" increased in Japan and "umbro" and "le coq sportif" increased overseas. However, sales of "le coq sportif" and "umbro" decreased in Japan and sales of "DESCENTE" and "arena" decreased overseas. As a result, overall sales decreased from the same quarter of the previous year.

DESCENTE: We supply official training wear for the members of Japan fencing national team, who won the "2019 Asian Fencing Championships" in June in foil teams for both men and women. We will continue to strengthen our product development capabilities, expand global brand recognition, and enhance brand value by supplying wear and shoes to various sports organizations, teams and athletes.

le coq sportif: We have signed an official supplier contract with the French Rugby Federation in collaboration with "LCS International SAS", which markets the brand outside Asia.

arena: In the "JAPAN SWIM 2019" held in April, Daiya Seto (ANA/JSS Moroyama), contracted athletes, won the 200m butterfly, 200m and 400m individual medley, and Ryosuke Irie (Itoman Toshin) won the 50m, 100m and 200m backstroke, contributing to the brand appeal.

umbro: We have developed the first football boots in Japan equipped with a coating material "GAINA" providing high thermal insulation. In South Korea, we are also expanding our shoe business, with strong sales of the new Dad Sneakers "BUCKY" launched in January.

(Golf Wear and Related Products)

In the Golf category, "DESCENTE" continued strong sales growth in Japan and overseas while "le coq sportif" and "Munsingwear" struggled. As a result, sales declined compared to the same quarter of the previous year in overall.

le coq sportif: Ai Suzuki, a contract golf player, won the title for "Ai Miyazato Suntory Ladies Open" held in June, and "Nichirei Ladies" held the following week, and contributed to the enhancement of the brand value.

Munsingwear: In April, the brand's flagship store in Ginza, Tokyo, celebrated the 1st anniversary of its opening, and we will continue to develop not only golf wear but also clothing that can be worn in daily life, and also deliver a world view of the brand.

As another topic, "DESCENTE" brand has entered the electric fan wear market as a countermeasure against the summer heat wave, which has become more severe in recent years. We developed a vest "*Kuuru JAC*" at our research and development center "DISC OSAKA". In the spring and summer season of 2020, we will expand our sales network and aim to have a wide range of customers wear this product.

(2) Explanation of Financial Position

As of the end of the consolidated first quarter, total assets decreased ¥1,938 million from the previous fiscal year to ¥113,817 million.

Current assets decreased ¥7,087 million to ¥70,964 million. This was mainly due to a decrease in cash and deposits of ¥5,378 million, a decrease in notes and accounts receivable of ¥3,916 million and an increase in goods and products of ¥2,482 million.

Fixed assets increased ¥5,148 million to ¥42,853 million. This was mainly due to an increase in right to use assets included other in property, plant and equipment of ¥5,595 million.

Total liabilities increased ¥328 million to ¥37,639 million. This was mainly due to an increase in lease obligations of ¥3,681 million and a decrease in notes and accounts payable-trade of ¥2,872 million.

Net assets decreased ¥2,267 million to ¥76,178 million. This was mainly due to a decrease in retained earnings of ¥1,605 million and a decrease in translation adjustments of ¥569 million.

As a result, the equity ratio decreased 0.9% to 66.9%.

(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts

There is no change in the consolidated performance forecast for the fiscal year ending March 31, 2020 from the performance forecast in the financial statements released on May 13, 2019. The New Medium-Term Management Plan reflects the results of the 3-year Medium-Term Management Plan "Compass 2018", which was completed in previous fiscal year and takes account of the current rapidly changing market environment, and is currently in the process of formulating announcements. We will disclose it as soon as it becomes possible.

2. Quarterly Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Yen in millions)

	FY2018 (March 31, 2019)	1Q FY2019 (June 30, 2019)
Assets		
Current assets		
Cash and deposits	28,136	22,757
Notes and accounts receivable - trade	21,190	17,273
Merchandise and finished goods	23,860	26,343
Work in process	161	157
Raw materials and supplies	799	758
Other	4,762	4,527
Allowance for doubtful accounts	(859)	(855)
Total current assets	78,051	70,964
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,356	12,150
Other	12,554	18,009
Total property, plant and equipment	24,910	30,160
Intangible assets	2,701	2,620
Investments and other assets		
Other	10,182	10,163
Allowance for doubtful accounts	(89)	(91)
Total investments and other assets	10,093	10,072
Total non-current assets	37,705	42,853
Total assets	115,756	113,817
Liabilities		
Current liabilities		
Notes and accounts payable – trade	18,448	15,576
Short-term loans payable	405	273
Current portion of long-term loans payable	254	718
Income taxes payable	1,183	951
Provision for bonuses	898	421
Provision for sales returns	883	778
Provision for loss on guarantees	121	121
Other	7,333	7,690
Total current liabilities	29,527	26,530
Non-current liabilities		
Long-term loans payable	4,133	3,766
Net defined benefit liability	952	1,031
Other	2,697	6,309
Total non-current liabilities	7,783	11,108
Total liabilities	37,310	37,639

(Yen in millions)

	FY2018 (March 31, 2019)	1Q FY2019 (June 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,281	25,281
Retained earnings	47,632	46,026
Treasury shares	(643)	(644)
Total shareholders' equity	76,115	74,509
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	739	606
Deferred gains or losses on hedges	(4)	27
Foreign currency translation adjustment	1,607	1,037
Remeasurements of defined benefit plans	(11)	(2)
Total accumulated other comprehensive income	2,330	1,668
Total net assets	78,446	76,178
Total liabilities and net assets	115,756	113,817

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income
 First Quarter ended June 30, 2019

(Yen in millions)

	1Q FY2018 (April 1, 2018-June 30, 2018)	1Q FY2019 (April 1, 2019-June 30, 2019)
Net Sales	30,776	29,479
Cost of sales	13,145	12,209
Gross profit	17,630	17,269
Reversal of provision for sales returns	—	104
Provision for sales returns	23	—
Gross profit - net	17,607	17,374
Selling, general and administrative expenses	16,490	16,923
Operating income	1,116	451
Non-operating income		
Interest income	77	92
Dividend income	25	25
Equity in earnings of affiliates	22	88
Other	54	77
Total non-operating income	180	283
Non-operating expenses		
Interest expense	32	71
Loss on retirement of non-current assets	44	17
Foreign exchange losses	21	66
Other	1	2
Total non-operating expenses	100	157
Ordinary income	1,196	577
Income tax-current before income taxes	1,196	577
Corporate tax, inhabitant tax and business tax	604	319
Income taxes – adjusted	(383)	(96)
Total income taxes	220	222
Quarterly profit	975	354
Quarterly profit attributable to owners of parent	975	354

Quarterly Consolidated Statements of Comprehensive Income
 First Quarter ended June 30, 2019

(Yen in millions)

	1Q FY2018 (April 1, 2018-June 30, 2018)	1Q FY2019 (April 1, 2019-June 30, 2019)
Quarterly Profit	975	354
Other comprehensive income		
Valuation difference on available-for-sale securities	97	(132)
Deferred gains or losses on hedges	9	32
Foreign currency translation adjustment	(2,371)	(599)
Remeasurements of defined benefit plans, net of tax	33	8
Share of other comprehensive income of entities accounted for using equity method	(51)	29
Total other comprehensive income	(2,282)	(661)
Comprehensive income	(1,306)	(306)
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,306)	(306)

(3) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumptions)

None

(Significant Changes in Shareholders' Equity)

None

(Application of Accounting Treatment Specific to the Preparation of Quarterly Consolidated Financial Statements)

Calculating Tax Expenses

For some consolidated subsidiaries, the tax expense is calculated by rationalizing the effective tax rate after the application of tax effect accounting to income before income taxes and minority interests for the fiscal year including the first quarter, and multiplying the net income before taxes by the estimated effective tax rate.

Income taxes of the consolidated subsidiaries are included in the corporate tax, inhabitant tax and business tax.

(Changes in Accounting Policies)

Subsidiaries applying International Financial Reporting Standards adopted International Financial Reporting Standards No. 16 "Leasing" ("IFRS 16") from the current 1st quarter. As a result, in principle, all leases are recognized as assets and liabilities on the balance sheet. IFRS 16 is applied on a transitional basis and the cumulative effect of the adoption of IFRS is recognized on the effective date.

As a result, "Other" of property, plant and equipment as of the end of the current 1st quarter increased by ¥5,595 million,

"Other" of current liabilities increased by ¥1,779 million and "Other" of non-current liabilities increased by ¥3,681 million. The effect on profit and loss for the first quarter under review was immaterial.

(Segment Information)

I Previous First Quarter ended June 30, 2018 (April 1, 2018-June 30, 2018)
Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments				Adjustment (Note 1)	Amount of Shown on Consolidated Income Statements (Note 2)
	Japan	Asia	Europe/Americas	Total		
Net Sales						
Sales to External Customers	11,634	18,665	476	30,776	—	30,776
Intersegment Sales or Transfers	210	156	18	384	(384)	—
Total	11,844	18,821	494	31,160	(384)	30,776
Segment Income (Loss)	(792)	2,126	(219)	1,115	1	1,116

(Note 1) Segment income (loss) adjustment of ¥1 million includes intersegment transaction eliminations of ¥8 million and inventory unrealized income adjustment of ¥(6) million.

(Note 2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

II Current First Quarter ended June 30, 2019 (April 1, 2019-June 30, 2019)
Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments				Adjustment (Note 1)	Amount of Shown on Consolidated Income Statements (Note 2)
	Japan	Asia	Europe/Americas	Total		
Net Sales						
Sales to External Customers	10,782	18,138	558	29,479	—	29,479
Intersegment Sales or Transfers	204	178	24	407	(407)	—
Total	10,986	18,316	583	29,887	(407)	29,479
Segment Income (Loss)	(1,486)	2,186	(227)	472	(21)	451

(Note 1) Segment income (loss) adjustment of ¥(21) million includes intersegment transaction eliminations of ¥7 million and inventory unrealized income adjustment of ¥(28) million.

(Note 2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

3. Supplemental Information

Overseas Sales

Previous First Quarter ended June 30, 2018 (April 1, 2018-June 30, 2018)

(Yen in millions, %)

	Asia	North America	Europe and other regions	Total
I Overseas Net Sales	18,959	173	367	19,499
II Consolidated Net Sales				30,776
III Percentage of overseas net sales in consolidated net sales	61.6	0.6	1.2	63.4

(Note) Net sales are based on the customer's location and classified into countries or regions.

Current First Quarter ended June 30, 2019 (April 1, 2019-June 30, 2019)

(Yen in millions, %)

	Asia	North America	Europe and other regions	Total
I Overseas Net Sales	18,528	227	369	19,124
II Consolidated Net Sales				29,479
III Percentage of overseas net sales in consolidated net sales	62.9	0.8	1.3	64.9

(Note) Net sales are based on the customer's location and classified into countries or regions.